

Message Text

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TAGS: ECON, CA

SUBJ: PM TRUDEAU COMMENTS ON GOC ANTI-INFLATION
CONTROLS AND FUTURE ECONOMIC POLICIES

BEGIN UNCLASSIFIED

1. SUMMARY. SPEAKING TO FINANCIAL POST CONFERENCE ON
CONTROLS IN TORONTO, OCTOBER 7, PM TRUDEAU CLAIMED INFLATION
WAS STILL CANADA'S "NUMBER ONE ENEMY", MADE CONCILIATORY
STATEMENTS REGARDING GOC RELIANCE ON "INDIVIDUAL
ENTERPRISE SYSTEM" IN CANADA AND PROMISED NEW INITIATIVES
IN ECONOMIC STRATEGIES TO BE ANNOUNCED IN THRONE
SPEECH NEXT WEEK. BUSINESS-ORIENTED AUDIENCE GAVE
RATHER COOL RECEPTION TO TRUDEAU AND HIS REMARKS. END
SUMMARY.

2. ON OCTOBER 7, PM TRUDEAU ADDRESSED CONFERENCE
SPONSORED BY FINANCIAL POST IN TORONTO. TRUDEAU'S
REMARKS WERE CENTERED ON INFLATION, STATE OF CANADIAN
ECONOMY AND FUTURE GOC ECONOMIC POLICIES.

3. WHILE ACKNOWLEDGING THAT RATE OF INCREASE IN COST

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OF LIVING HAD DECELERATED, TRUDEAU CLAIMED THAT

INFLATION CONTINUED TO BE "PUBLIC ENEMY NUMBER ONE."
HE SAID THAT CURRENT ANNUAL RATE OF ABOUT 7 PERCENT
WAS STILL "INTOLERABLE" AND "LATENT INFLATIONARY
PRESSURES" IN ECONOMY MUST BE CORRECTED.

4. "WE ARE GOING THROUGH A VERY DIFFICULT PERIOD IN
CANADA," TRUDEAU SAID, "THERE IS A SPIRIT OF MISTRUST,
HOSTILITY, IRRITABLENESS AND INSULARITY AMONG US..."
IN ORDER TO SOLVE OUR ECONOMIC PROBLEMS, HE MAINTAINED,
THE FIRST REQUIREMENT "IS WIDESPREAD PUBLIC UNDERSTANDING
OF CURRENT ECONOMIC CONDITIONS AND, PARTICULARLY, THE
INFLATIONARY PROCESS."

5. TRUDEAU THEN GAVE HIS INTERPRETATION OF THE REASONS
FOR INFLATION ("EXPECTATIONS OF CONTINUALLY RISING PRICES
... DEEPLY ENTRENCHED") AND TRACED HISTORY OF ECONOMIC
GROWTH IN CANADA AND WORLD OVER PAST 30 YEARS. GROWTH
PROCESS, ACCORDING TO TRUDEAU, "PRODUCED SOCIAL AND
ECONOMIC PRESSURES," LEADING TO "LARGER SIZE AND ROLE
OF GOVERNMENT," "ENVIRONMENTAL PROBLEMS," AND GREATER
"SIZE, POWER AND COMPLEXITY OF ALL ECONOMIC INSTITUTIONS
AND ORGANIZATIONS."

6. ALTHOUGH CANADA FARED BETTER THAN MOST OTHER COUNTRIES
IN RECENT RECESSION, TRUDEAU MAINTAINED THAT CANADA HAD
GREATER DIFFICULTY IN COMING OUT OF RECESSION AND HAD
MUCH HIGHER INFLATIONARY RATES IN LATE 1975 THAN U.S.,
THUS, PRODUCING "TRULY EXTRAORDINARY INCOME AND PRICE
DECISIONS."

7. TRUDEAU RATIONALIZED GOC ANTI-INFLATION PROGRAM BY
SAYING, "LAST SUMMER AND FALL, WE HEARD SO MANY
DEMANDS FOR 30, 50 AND 70 PERCENT INCREASES IN VARIOUS
FORMS OF INCOME THAT THEY LOST THEIR SHOCK VALUE. WE
WERE ON THE ROAD TOWARD CREATING A NON-COMPETITIVE
EXPORT INDUSTRY, A DEEPENING RECESSION, AND AN INTOLER-
ABLE RATE OF UNEMPLOYMENT. THE GOVERNMENT HAD TO ACT,
AND IT DID."

8. TRUDEAU EXPRESSED CONFIDENCE THAT GOC WOULD MEET
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CONTROL PROGRAM'S TARGET OF LESS THAN 8 PERCENT RISE
IN INFLATION THIS YEAR AND 6 PERCENT IN 1977. HOWEVER,
"WE STILL HAVE A LOT OF WORK TO DO" SINCE INFLATION
RATE IS HIGHER THAN SOME OF CANADA'S MAJOR TRADING
PARTNERS, PRODUCTIVITY IS LOW AND CURRENT ACCOUNT
DEFICIT AT RECORD LEVELS.

9. HOWEVER, SAID TRUDEAU, "THE CONTROLS WILL EXPIRE

BEFORE THE END OF 1978, AND SOONER IF ECONOMIC CIRCUMSTANCES ARE FAVORABLE. THEY WILL NOT BE EXTENDED. THEY WILL END." HE WAS CONFIDENT OF HIS PREDICTION BECAUSE "NEITHER THE GOVERNMENT NOR THE PEOPLE OF CANADA WANT TO LIVE WITH CONTROLS ANY LONGER THAN NECESSARY," AND BECAUSE CONTROLS "CREATE THEIR OWN KIND OF ECONOMIC DISRUPTION AND SOCIAL INJUSTICE... OVER THE LONGER TERM."

10. TURNING TO FUTURE ECONOMIC PROBLEMS FOR CANADA, TRUDEAU POINTED TO INCREASED COMPETITION IN INTERNATIONAL MARKETS, HIGHER PRICES FOR FOOD, ENERGY AND COMMODITIES, MORE COMPETITION FOR INVESTMENT CAPITAL, EQUIPMENT AND SKILLED LABOR, AND SEARCH FOR DOMESTIC ENERGY SUPPLIES.

11. TRUDEAU RETURNED SEVERAL TIMES TO INTERNATIONAL COMPETITION FOR DEVELOPMENT CAPITAL AND NEED FOR CANADA TO BECOME MORE COMPETITIVE IN WORLD MARKETS. HOWEVER, INFLATION WAS PRINCIPAL "THREAT TO OUR REAL GROWTH AND PROSPERITY."

12. TO WITHSTAND INFLATIONARY PRESSURES, TRUDEAU SUGGESTION DEVELOPING BETTER LABOR MANAGEMENT RELATIONS, INCREASING PRODUCTIVITY, SEEKING "BROADER AND MUTUALLY BENEFICIAL TRADING RELATIONSHIPS, WHILE PRESERVING AND INTENSIFYING TRADE WITH U.S." AND DEVELOPING MORE RESPONSIBLE SHARING OF GROWTH COSTS.

13. AS TO GOVERNMENT'S ROLE IN REDUCING INFLATIONARY PRESSURES, TRUDEAU SAID GOC OPTED FOR "MIDDLE ROAD" BETWEEN THOSE WHO "WANT A VERY LIMITED ROLE FOR GOVERNMENT" AND THOSE "WHO INSIST ON A CONTINUING EXPANDING ROLE FOR GOVERNMENT." "WE CHOOSE TO RELY ON LIMITED OFFICIAL USE

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INDIVIDUAL ENTERPRISE AS THE PRINCIPAL STIMULANT OF THE GROWTH WE NEED ... BUT WE BELIEVE THAT THE WORKINGS OF THE MARKET SHOULD BE IMPROVED SO THAT THE SOCIAL COSTS OF ITS DECISIONS COULD BE MORE EQUITABLY SHARED."

14. "MIDDLE ROAD," ACCORDING TO TRUDEAU, "IMPLIES A COMMITMENT TO BASIC PRINCIPLES," E.G., FISCAL RESTRAINT, "INCREASED RELIANCE ON THE INDIVIDUAL ENTERPRISE SYSTEM TO STIMULATE INVESTMENT, PRODUCTION AND GROWTH," EQUALITY OF OPPORTUNITY FOR PEOPLE AND REGIONS OF CANADA, AND LEADERSHIP "TOWARD THE SELECTION AND ADOPTION OF THOSE NEW ECONOMIC STRATEGIES" FOR MAXIMIZING POTENTIAL WITHOUT "EXPLOSION OF INFLATIONARY FORCES."

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15. TRUDEAU SAID GOC HAS IDENTIFIED MAJOR PRIORITY AREAS FOR NEW STRATEGIES AND "SOME INITIATIVES IN THESE AREAS ... WILL BE ANNOUNCED IN THE SPEECH FROM THE THRONE NEXT TUESDAY."

16. DECLINING TO GIVE DETAILS, TRUDEAU MENTIONED "GENERAL DIRECTIONS" OF FUTURE GOC ACTIONS, E.G., MANPOWER AND MOBILITY PROGRAMS, JOB CREATION, "REDESIGN AND SIMPLIFY SOCIAL PROGRAMS," IMPROVED COLLECTIVE BARGAINING PROCESS, "COOPERATIVE SHARING OF THE SOCIAL COSTS OF PRIVATE DECISIONS," TRANSFERRAL TO PRIVATE SECTOR OPPORTUNITIES FOR PROVIDING SOME GOODS AND SERVICES NOW PROVIDED BY GOVERNMENT, ENLARGEMENT OF ROLE OF SMALL BUSINESS, ENERGY CONSERVATION, AND ENCOURAGEMENT OF HIGHER LEVEL OF DOMESTIC SAVINGS. TRUDEAU ENDED BY CALLING FOR COOPERATIVE EFFORT BY ALL CANADIANS IN IMPLEMENTING NEW STRATEGIES.

17. COMMENT: TRUDEAU'S SPEECH CAME AT END OF DAY - LONG CONFERENCE ON SUBJECT "CONTROLS - NOW OR FOREVER?" DURING WHICH GOC'S POLICIES WERE UNDER CONTINUED ATTACK. WITH EXCEPTION OF TALK BY J. K. GALBRAITH WHO (WHILE AVOIDING DIRECT COMMENT ON GOC'S CURRENT

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POLICIES) ARGUED HIS FAMILIAR THESIS THAT INDUSTRIALIZED COUNTRIES MUST TAKE STEPS TO CONTROL POWER OF BIG BUSINESS AND BIG LABOR WHICH ARE NO LONGER ADEQUATELY RESTRAINED BY MARKET FORCES, MOST COMMENTS WERE HIGHLY CRITICAL OF WAY IN WHICH TRUDEAU GOVERNMENT HAS MANAGED THE ECONOMY. SIMON RESIMAN, FORMER DEPUTY MINISTERS OF FINANCE, WHO HAD SECOND BILLING BEHIND GALBRAITH SAID CONTROLS MIGHT HAVE SERVED SOME USEFUL PURPOSE IN BREAKING INFLATIONARY EXPECTATIONS AND SMOOTHING TRANSITIONS TO LESS INFLATIONARY, MORE STABLE SITUATION, COSTS NOW OUTWEIGHT BENEFITS AND "IT IS ESSENTIAL THAT CONTROLS BE REMOVED WITHOUT DELAY." REISMAN STATED "I AM CONFIDENT THAT ONCE PROPER FISCAL, MONETARY AND OTHER POLICIES ARE EFFECTIVELY IN PLACE, COSTS AND PRICES IN THE PRIVATE SECTOR WILL BE EFFECTIVELY CONTAINED BY THE FORCES OF COMPETITION - PARTICULARLY AS THE REALITY OF CANADA'S DETERIORATING COMPETITIVE POSITION BECOMES MORE STARKLY EVIDENT." OTHER SPEAKERS AND QUESTIONS FROM LARGELY BUSINESS-ORIENTED AUDIENCE SUPPORTED REISMAN'S THESIS THAT CONTROLS SHOULD GO -- MOST THOUGHT THEY SHOULDN'T HAVE BEEN IMPOSED IN THE FIRST PLACE. MUCH EMPHASIS WAS PLACED ON NEED FOR GOVERNMENT ITSELF TO EXERCISE RESTRAINT, PARTICULARLY IN AREA OF PUBLIC SERVICE WAGE SETTLEMENTS.

18. TRUDEAU RECEIVED COOL RECEPTION WHEN HE ENTERED DINING ROOM FOR DINNER. AUDIENCE ROSE TO ITS FEET WITH OBVIOUS SHOW OF RELUCTANCE AND APPLAUDED PERFORMANCE. TRUDEAU APPEARED AT LAST AND DREW SOME LAUGHS WITH JOULAR REMARKS ABOUT NEED FOR SECRET MEETING BETWEEN HIMSELF AND PROFESSOR GALBRAITH TO WORK OUT CONTENT OF THRONE SPEECH BUT SUBSTANCE OF SPEECH WAS UNSATISFYING TO AUDIENCE. ILLUSTRATIVE OF REACTION WAS COMMENT TO ECON COUNSELOR BY OFFICIAL OF PREVIOUS LIBERAL GOVERNMENT AS AUDIENCE WAS FILING OUT: "IF WE HELD AN ELECTION NOW THE PM WOULD GET ABOUT ONE PERCENT OF THE VOTE HERE."

19. DESPITE UNENTHUSIASTIC REACTION OF HIS IMMEDIATE AUDIENCE TRUDEAU DID REEMPHASIZE THAT THE CONTROL

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PROGRAM IS TEMPORARY, PAID HIS RESPECTS TO THE

MARKET SYSTEM, LAUDED INDIVIDUAL ENTERPRISE, AND
PROMISED PUBLIC SECTOR RESTRAINT -- ALL THEMES THAT
SHOULD BE CONGENIAL TO HIS BUSINESS CRITICS. UPON
REFLECTION THEY MAY TAKE A MORE POSITIVE VIEW OF
THIS TRUDEAU APPROACH. MUCH WILL PROBABLY DEPEND
ON THE NATURE OF THE SPECIFIC POLICY MEASURES
THAT THE GOVERNMENT WILL PROPOSE IN NEXT WEEK'S
THRONE SPEECH AND LATER IN THE NEW PARLIAMENTARY
SESSION.
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